

MURANG'A UNIVERSITY COLLEGE
SUPPLEMENTARY EXAMINATIONS: 2015/2016
EXAMINATIONS FOR BACHELOR OF COMMERCE
HBC 2107: INTRODUCTION TO ACCOUNTING II

TIME: 2 HOURS

INSTRUCTIONS: Answer Question One and Any Other Two Questions

QUESTION ONE

- a. Highlight the reasons why a company would not wish to distribute all its profits to its shareholders. (5 marks)
- b. A limited company has an authorized share capital of 200,000 shares of Sh.100 each out of which only 150,000 shares have been issued, although the firm requested the shareholders to pay Sh. 80 per share, the shareholders were able to pay Sh. 50 per share.

Required:

- i. Authorized share capital
ii. Issued share capital
iii. Called up share capital
iv. Uncalled up share capital
v. Paid up share capital (5 Marks)
- c. Mwangi, Koech, and Omondi are trading as partners sharing profits and losses in the ratio of 2:2:1. They have the following assets and liabilities at the book values and they wish to restate these values at market values and agreed values.

Assets/Liabilities	Book value Sh.	Market price/Agreed value Sh.
Buildings	2,000,000	2,500,000
Fittings & furniture	900,000	800,000
Motor vehicle	1,200,000	1,150,000
Stock	700,000	650,000
Debtors	450,000	400,000
Creditors	800,000	700,000

The Partners Capital balances are as follows

Mwangi: Sh.3,000,000

Koech: Sh.2,500,000

Omondi: Sh.1,500,000

Required:

Prepare Revaluation account and the partner's capital account (12 Marks)

- d. David Koech does not maintain a complete accounting system but maintains details of Assets and Liabilities as follows;

<u>Details</u>	<u>1st July 2013</u>	<u>30th June 2014</u>
	<u>Sh.</u>	<u>Sh.</u>
Land and building	80,000	150,000
Furniture and Fittings	25,000	21,000
Motor vehicles	500,000	600,000
Stock	75,000	45,000
Receivables	65,000	50,000
Bank	650,000	700,000
Cash	50,000	70,000
Loan	500,000	350,000
Creditors	64,000	56,000

He indicates that the total drawings were sh.92,000

Required

Profit for the year ended 30th June 2014

(8 Marks)

QUESTION TWO

The trial balance of Bidii Manufactures Ltd is presented as follows;

Bidii Manufactures

Trial Balance as on 31 December 2015

	Dr	Cr
Stock of raw materials 1.1.2015	21,000	
Stock of finished goods 1.1.2015	38,900	
Work in progress 1.1.2015	13,500	
Wages(direct Sh.180,000: factory indirect Sh.145,000)	325,000	
Royalties	7,000	
Carriage inwards (on raw materials)	3,500	
Purchases of raw materials	370,000	
Productive machinery (cost Sh. 280,000)	230,000	
Accounting machinery (cost Sh. 20,000)	12,000	
General factory expenses	31,000	
Lighting	7,500	
Factory power	13,700	
Administrative salaries	44,000	
Sales representatives' salaries	30,000	
Commission on sales	11,500	
Rent	12,000	
Insurance	4,200	
General administration expenses	13,400	
Bank charges	2,300	
Discounts allowed	4,800	

Carriage outwards	5,900	
Sales		1000,000
Debtors and creditors	142,300	125,000
Bank	56,800	
Cash	1,500	
Drawings	20,000	
Capital as at 1.1.2015		<u>29,680</u>
	<u>1,421,800</u>	<u>1,421,800</u>

Notes at 31.12.2015

1. Stock of raw materials Sh. 24,000, stock of finished goods Sh. 40,000, work in progress Sh. 15,000.
2. Lighting, and rent and insurance are to be apportioned: factory 5/6ths, administration 1/6th.
3. Depreciation on productive and accounting machinery at 10 per cent per annum on cost.

Required:

- a. Manufacturing, Trading Profit and Loss Account for the year ended 31 December 2015 (12 Marks)
- b. Statement of financial position as at 31 December 2015 (8 Marks)

QUESTION THREE

Kyamba, Onyango and Wakil were partners in a manufacturing and retail business and shared profits and losses in the ratio 2:2:1 respectively

Given below is the balance sheet of the partnership as at 31 March 2014.

Balance sheet as at 31 March 2014

Assets	Sh.	Sh.
Non-current assets:		
Fixed assets		465,000
Current assets:		
Stock	294,000	
Debtors	209,000	<u>503,000</u>
		<u>968,000</u>
Capital and liabilities:		
Capital accounts:		
Kyamba	160,000	
Onyango	140,000	
Wakil	<u>200,000</u>	
		500,000
Current accounts:		
Kyamba	65,300	
Onyango	49,000	
Wakil	<u>53,000</u>	
		<u>167,300</u>
		667,300
Current Liabilities:		
Bank overdraft	48,000	

Trade creditors	<u>252,000</u>	
		<u>300,700</u>
		<u>968,000</u>

Additional information:

1. On 1 April 2014, Wakil retired from the partnership and was to start a business as a sole trader while Kyamba and Onyango continued in partnership.
2. On retirement of Wakil, the manufacturing business was transferred to him while Kyamba and Onyango continued with the retail business

The assets and liabilities transferred to Wakil were as follows:

Net book value	Transfer value	
Sh	Sh.	
Fixed assets	260,000	306,000
Stocks 166,000		157,000
Debtors	172,000	165,000
Creditors	156,000	156,000

Wakil obtained a loan from a commercial bank and paid into the partnership the net amount due for him.

3. On retirement of Wakil form the partnership, goodwill was valued at Sh.200, 000 but was not to be maintained in the books of the partnership of Kyamba and Onyango.
4. After retirement of Wakil on 1 April 2014, Kyamba and Onyango agreed on the following terms and details of the new partnership.
 - Kyamba and Onyango to introduce additional capital of Sh.48, 000 and Sh.68, 000 respectively.
 - Each partner was entitled to interest on capital at 10% per annum with effect from 1 April 2014 and the balance of the profits be shared equally after allowing for annual salaries of Sh.72, 000 to Kyamba and Sh.60, 000 to Onyango.
5. The profit of the new partnership before interest on capitals and partners' salaries was Sh.240,000 for the year ended 31 March 2015.
6. The profits made by the new partnership increased stocks by Sh.100,000, debtors by Sh.90,000 and bank balance by Sh.50,000.
7. Drawings by the partners in the year were Kyamba Sh.85,000 and Onyango Sh.70,000.

Required:

- a) Profit and loss and appropriation account for the year ended 31 March 2015.(4 marks)
- b) Capital accounts for the year ended 31 March 2015 (4 marks)
- c) Current accounts for the year ended 31 March 2015. (4 marks)
- d) Statement of financial position of the new partnership as at 31 March 2015 (8 marks)

(Total: 20 marks)

QUESTION FOUR

- a. Outline six contents of partnership agreement (6 Marks)
- b. Distinguish between non-purchased goodwill and purchased goodwill and explain the accounting treatment of each. (6 Marks)
- c. Highlight the limitation of ratios (8 Marks)